

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name VILLAGE OF FREE SOIL	County MASON
Audit Date 2/28/05	Opinion Date 4/25/05	Date Accountant Report Submitted to State: 5/18/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

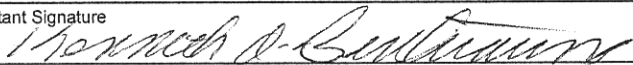
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) BERTHIAUME & COMPANY CPA			
Street Address 60 HARROW LANE	City SAGINAW	State MI	ZIP 48603
Accountant Signature 		Date 5-18-05	

VILLAGE OF FREE SOIL

Mason County, Michigan

FINANCIAL STATEMENTS

February 28, 2005

**BERTHIAUME
& COMPANY**

Certified Public Accountants



VILLAGE OF FREE SOIL

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INDEPENDENT AUDITORS' REPORT

To the Village Council
Village of Free Soil, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Village of Free Soil, Michigan as of and for the year ended February 28, 2005, which collectively comprise the Village's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Village of Free Soil's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Village of Free Soil as of February 28, 2005, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Free Soil's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

As described in Note 11, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and related statements, as of March 1, 2004.

Berthiaume & Co.

April 25, 2005

BASIC FINANCIAL STATEMENTS

VILLAGE OF FREE SOIL

STATEMENT OF NET ASSETS

February 28, 2005

	<u><i>Primary Government Governmental Activities</i></u>
Assets:	
Cash and cash equivalents	\$ 135,152
Receivables	12,427
Capital assets:	
Nondepreciable capital assets	18,500
Depreciable capital assets, net	<u>25,267</u>
Total assets	<u>191,346</u>
Liabilities:	
Accounts payable and accrued expenses	<u>749</u>
Total liabilities	<u>749</u>
Net assets:	
Invested in capital assets, net of related debt	43,767
Unrestricted	<u>146,830</u>
Total net assets	<u><u>\$ 190,597</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF FREE SOIL

STATEMENT OF ACTIVITIES

Year Ended February 28, 2005

		<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
	<u>Expenses</u>			
Functions/Programs				
PRIMARY GOVERNMENT:				
<i>Governmental activities:</i>				
General government	\$ 23,556	\$ -	\$ 75	\$ (23,481)
Public safety	500	-	-	(500)
Public works	12,741	2,921	33,756	23,936
Total governmental activities	36,797	2,921	33,831	(45)
 Total primary government	 \$ 36,797	 \$ 2,921	 \$ 33,831	 \$ (45)

continued

The accompanying notes are an integral part of these financial statements.

	<i>Primary Government</i>
	<u><i>Governmental Activities</i></u>
Changes in net assets:	
Net (Expense) Revenue	\$ (45)
General revenues:	
Taxes:	
Property taxes, levied for general purpose	7,653
State revenue sharing - sales tax	15,060
Unrestricted investment earnings	1,296
Special item - Gain on sale of capital asset	<u>500</u>
Total general revenues and special items	<u>24,509</u>
Change in net assets	24,464
Net assets, beginning of year	<u>166,133</u>
Net assets, end of year	<u><u>\$ 190,597</u></u>

VILLAGE OF FREE SOIL

GOVERNMENTAL FUNDS

BALANCE SHEET

February 28, 2005

	<i>General Fund</i>	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Total Governmental Funds</i>
Assets:				
Cash and cash equivalents	\$ 40,368	\$ 62,266	\$ 19,468	\$ 122,102
Taxes receivable	1,143	-	-	1,143
Due from other governmental units	4,733	5,291	1,260	11,284
Total assets	<u>\$ 46,244</u>	<u>\$ 67,557</u>	<u>\$ 20,728</u>	<u>\$ 134,529</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable and accrued expenses	\$ 690	\$ -	\$ -	\$ 690
Due to other funds	-	604	257	861
Total liabilities	<u>690</u>	<u>604</u>	<u>257</u>	<u>1,551</u>
Fund balances:				
Unreserved:				
General fund	45,554	-	-	45,554
Special revenue funds	-	66,953	20,471	87,424
Total fund balances	<u>45,554</u>	<u>66,953</u>	<u>20,471</u>	<u>132,978</u>
Total liabilities and fund balances	<u>\$ 46,244</u>	<u>\$ 67,557</u>	<u>\$ 20,728</u>	<u>\$ 134,529</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF FREE SOIL

RECONCILIATION OF FUND BALANCES OF THE GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

February 28, 2005

Total fund balances for governmental funds \$ 132,978

Total net assets reported for governmental activities in the statement of
of net assets is different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the governmental funds.

Governmental capital assets	30,337	
Less accumulated depreciation	<u>(3,453)</u>	26,884

The assets and liabilities of internal service funds are included in governmental
activities in the statement of net assets. 30,735

Net assets of governmental activities \$ 190,597

The accompanying notes are an integral part of these financial statements.

VILLAGE OF FREE SOIL

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended February 28, 2005

	<i>General Fund</i>	<i>Major Street Fund</i>	<i>Local Street Fund</i>	<i>Total Governmental Funds</i>
Revenues:				
Property taxes	\$ 7,653	\$ -	\$ -	\$ 7,653
State grants	16,408	27,028	5,381	48,817
Interest and rents	530	509	256	1,295
Other revenue	<u>75</u>	<u>-</u>	<u>-</u>	<u>75</u>
Total revenues	<u>24,666</u>	<u>27,537</u>	<u>5,637</u>	<u>57,840</u>
Expenditures:				
<i>Current:</i>				
General government	23,249	-	-	23,249
Public safety	500	-	-	500
Public works	-	9,856	2,885	12,741
Capital outlay	<u>999</u>	<u>-</u>	<u>-</u>	<u>999</u>
Total expenditures	<u>24,748</u>	<u>9,856</u>	<u>2,885</u>	<u>37,489</u>
Excess (deficiency) of revenues over expenditures	<u>(82)</u>	<u>17,681</u>	<u>2,752</u>	<u>20,351</u>
Net change in fund balances	(82)	17,681	2,752	20,351
Fund balances, beginning of year, as restated	<u>45,636</u>	<u>49,272</u>	<u>17,719</u>	<u>112,627</u>
Fund balances, end of year	<u>\$ 45,554</u>	<u>\$ 66,953</u>	<u>\$ 20,471</u>	<u>\$ 132,978</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF FREE SOIL

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended February 28, 2005

Net change in fund balances - total governmental funds \$ 20,351

Total change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.

Capital outlay	999	
Less depreciation expense	<u>(307)</u>	692

The net revenue (expense) of the internal service fund is reported with governmental activities.	<u>3,421</u>
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Change in net assets of governmental activities \$ 24,464

The accompanying notes are an integral part of these financial statements.

VILLAGE OF FREE SOIL

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
February 28, 2005

	<i><u>Governmental Activities Internal Service Fund- Equipment</u></i>
Assets:	
<i>Current assets:</i>	
Cash and cash equivalents	\$ 13,050
Due from other funds	<u>861</u>
Total current assets	<u>13,911</u>
<i>Noncurrent assets:</i>	
Depreciable capital assets, net	<u>16,883</u>
Total noncurrent assets	<u>16,883</u>
Total assets	<u>30,794</u>
Liabilities:	
<i>Current liabilities:</i>	
Accounts payable and accrued expenses	<u>59</u>
Total current liabilities	<u>59</u>
Total liabilities	<u>59</u>
Net assets:	
Invested in capital assets, net of related debt	16,883
Unrestricted	<u>13,852</u>
Total net assets	<u><u>\$ 30,735</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF FREE SOIL

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended February 28, 2005

	<i>Governmental Activities</i>
	<i>Internal Service Fund- Equipment</i>
Operating revenues:	
Equipment rental	\$ 6,739
Total operating revenues	<u>6,739</u>
Operating expenses:	
Supplies	576
Repair and maintenance	1,460
Other services and supplies	70
Depreciation	<u>1,712</u>
Total operating expenses	<u>3,818</u>
Operating income (loss)	<u>2,921</u>
Non-operating revenues (expenses):	
Proceeds from sale of capital asset	<u>500</u>
Total non-operating revenues (expenses)	<u>500</u>
Net income (loss)	<u>3,421</u>
Net assets, beginning of year	<u>27,314</u>
Net assets, end of year	<u><u>\$ 30,735</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF FREE SOIL

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year Ended February 28, 2005

	<i><u>Governmental Activities</u></i>
	<i><u>Internal Service Fund- Equipment</u></i>
Cash flows from operating activities:	
Cash received from interfund services	\$ 6,818
Cash payments to suppliers for goods and services	<u>(2,047)</u>
Net cash provided by operating activities	<u>4,771</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(6,422)</u>
Net cash used by capital and related financing activities	<u>(6,422)</u>
Cash flows from investing activities:	
Proceeds received from sale of capital asset	<u>500</u>
Net cash provided by investing activities	<u>500</u>
Net increase (decrease) in cash and cash equivalents	<u>(1,151)</u>
Cash and cash equivalents, beginning of year	<u>14,201</u>
Cash and cash equivalents, end of year	<u><u>\$ 13,050</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income	\$ 2,921
Adjustments:	
Depreciation	1,712
Changes in assets and liabilities:	
Due from other funds	79
Accounts payable and accrued expenses	<u>59</u>
Net cash provided by operating activities	<u><u>\$ 4,771</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

VILLAGE OF FREE SOIL

NOTES TO FINANCIAL STATEMENTS

February 28, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Free Soil conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Village. In evaluating the Village as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the Village may be financially accountable and, as such, should be included within the Village's financial statements. There are no component units that need to be included in the Village's financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

The accounts of the Village are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-wide Financial Statements:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government. These statements distinguish between activities that are governmental and those that are business-type activities. There are no business-type activities. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Village's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

VILLAGE OF FREE SOIL

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2005

The statement of activities reports both the gross and net cost of each of the Village's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The Village does not allocate indirect costs. In creating the government-wide financial statements the Village has eliminated interfund transactions.

The government-wide focus is on the sustainability of the Village as an entity and the change in the Village's net assets resulting from current year activities.

Fund Financial Statements:

Separate financial statements are provided for governmental funds and proprietary funds. Major individual funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

VILLAGE OF FREE SOIL

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2005

The Village reports the following major governmental funds:

The **General Fund** is the primary operating fund of the Village. It is used to account for all financial resources, except for those required to be accounted for in another fund.

The **Major Street Fund** is used to account for the maintenance and construction of the Village's major street system.

The **Local Street Fund** is used to account for the maintenance and construction of the Village's local street system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Assets, Liabilities and Equity:

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments are stated at fair value. For purposes of the statement of cash flows, the Village considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less and all local government investment pools to be cash equivalents.

Interfund Receivables and Payables – Generally, outstanding amounts owed between funds are classified as “due from/to other funds”. These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets – Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The Village defines capital assets as assets with an initial individual cost in excess of \$500. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are not capitalized. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	50 years
Vehicles	10 years
Furniture and equipment	5 years

VILLAGE OF FREE SOIL

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2005

Compensated Absences – There is no accumulation of earned but unused sick and vacation days.

Long-term Obligations – In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the “grossing up” effect on assets and liabilities within the governmental activities column.

Property Taxes:

Properties are assessed as of December 31. The related property taxes become a lien on July 1 of the following year, which is when they are billed. These taxes are due on September 14, with a final collection date of March 1 before they are added to the county tax rolls.

The 2004 taxable valuation of the Village totaled \$1,718,871, on which ad valorem taxes levied consisted of 4.4089 mills for the Village’s operating purposes.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Village Treasurer submits to the Village Council a proposed operating budget by fund for each year. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to March 1, the budget is legally enacted by adoption of the Village Council.
4. Any revision that alters the total expenditures of any fund must be approved by the Village.

VILLAGE OF FREE SOIL

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2005

5. Formal budgetary integration is employed as a management control device during the year for all funds.
6. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as originally adopted and amended by the Village Council is included in the required supplemental information.
7. All annual appropriations lapse at fiscal year end.

Excess of Expenditures over Appropriations in Budgeted Funds:

During the year, the Village did not incur expenditures that were in excess of the amounts budgeted.

NOTE 3: DEPOSITS AND INVESTMENTS

The Village's deposits at February 28, 2005 are included in the statement of net assets under the following categories:

	<i>Governmental Activities</i>
Cash and cash equivalents	\$ <u>135,152</u>

Deposits:

The breakdown between deposits for the Village is as follows:

	<i>Primary Government</i>
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ <u>135,152</u>

The deposits of the primary government were reflected in the accounts of financial institutions (without recognition of checks written but not yet cleared or of deposits in transit) at \$135,152, of which \$110,190 is covered by federal depository insurance and the remainder was uninsured and uncollateralized.

Investments:

State statutes authorize the Village to invest surplus funds in certificates of deposit, savings accounts and deposit accounts with banks and savings and loan associations which are members of FDIC, credit unions which are insured by NCUA, bonds, bills or notes of the U.S., commercial paper rated within the 3 highest classifications established, U.S. or federal agency obligation repurchase agreements, bankers' acceptances and mutual funds composed entirely of the aforementioned investments that are legal for direct investment by a Village.

VILLAGE OF FREE SOIL

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2005

Investments are categorized into these three categories of credit risk:

Category 1 – Insured or registered, or securities held by the Village or its agent in the Village's name;

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Village's name; and

Category 3 – Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Village's name.

At year end, the Village had no investments.

NOTE 4: CAPITAL ASSETS

Primary Government capital asset activity for the year ended February 28, 2005 was as follows:

	<u><i>Beginning Balance</i></u>	<u><i>Additions</i></u>	<u><i>Retirements</i></u>	<u><i>Ending Balance</i></u>
Governmental activities:				
Nondepreciable capital assets:				
Land	\$ 18,500	\$ -	\$ -	\$ 18,500
Depreciable capital assets:				
Buildings	10,838	-	-	10,838
Vehicles	23,912	6,422	(10,000)	20,334
Furniture and equipment	220	999	(220)	999
	<u>34,970</u>	<u>7,421</u>	<u>(10,220)</u>	<u>32,171</u>
Total capital assets	<u>53,470</u>	<u>7,421</u>	<u>(10,220)</u>	<u>50,671</u>
Accumulated depreciation	<u>(15,105)</u>	<u>(2,019)</u>	<u>10,220</u>	<u>(6,904)</u>
Depreciable capital assets, net	<u>19,865</u>	<u>5,402</u>	<u>-</u>	<u>25,267</u>
Governmental activities, capital assets, net	<u>\$ 38,365</u>	<u>\$ 5,402</u>	<u>\$ -</u>	<u>\$ 43,767</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 307
Public works	<u>1,712</u>
Total governmental activities	<u>\$ 2,019</u>

VILLAGE OF FREE SOIL

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2005

NOTE 5: DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At the end of the current fiscal year, the Village had no deferred revenue.

NOTE 6: LONG-TERM LIABILITIES

The Village may issue bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the Village. County contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

The Village had no long-term liabilities at February 28, 2005.

NOTE 7: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the Village's governmental activities in the aggregate are as follows:

	<i><u>Governmental Activities</u></i>
Receivables:	
Taxes	\$ 1,143
Intergovernmental	<u>11,284</u>
Total receivables	<u><u>\$ 12,427</u></u>
Accounts payable and accrued expenses:	
Accounts	\$ <u>690</u>
Total accounts payable and accrued expenses	<u><u>\$ 690</u></u>

VILLAGE OF FREE SOIL

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2005

NOTE 8: INTERFUND BALANCES AND TRANSFERS

The composition of interfund receivable and payable balances at February 28, 2005 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Internal Service Fund - Equipment	Major Street Fund	\$ 604
Internal Service Fund - Equipment	Local Street Fund	<u>257</u>
		<u>\$ 861</u>

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year. The balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

The Village made no interfund transfers for the fiscal year.

NOTE 9: RISK MANAGEMENT

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation). The Village has purchased commercial insurance for property loss, torts, and workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

NOTE 10: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Pension Plan:

The Village does not have a pension plan.

Post Employment Benefits:

The Village provides no post employment benefits to past employees.

Deferred Compensation Plan:

The Village does not have a deferred compensation plan.

VILLAGE OF FREE SOIL

NOTES TO FINANCIAL STATEMENTS, CONTINUED

February 28, 2005

NOTE 11: PRIOR PERIOD ADJUSTMENTS

Change in Recognition of Sales Tax Revenue:

Recognition of state shared revenue payments of sales tax should agree with the State of Michigan's distribution periods. In prior years, the payment distributed in April for January/February collection period was recorded as revenue in the next year, or the year that it was received. In accordance with accounting principles generally accepted in the United States of America, this payment should be accrued to the prior year.

The effect of this adjustment on General Fund fund balance is as follows:

Fund balance, as previously stated, as of 2/29/04	\$ 43,778
Add: State shared revenue for sales tax that should have accrued to prior year	<u>1,858</u>
Fund balance, restated, as of 2/29/04	<u>\$ 45,636</u>

Accounting Change:

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments* (Statement). The Village is required to implement the new requirements for the year ended February 28, 2005. The more significant of the changes to the financial statements as a result of the Statement are as follows:

For the first time, the financial statements will include:

- Government-wide financial statements prepared using full accrual accounting for all of the Village's activities.
- Fund financial statements, consisting of a series of statements that focus on a government's major governmental funds.

As a result of implementing the Statement, the following restatements were made to beginning fund balance and net asset accounts:

Government-wide Financial Statements:

Beginning net assets for governmental activities was determined as follows:

Fund balances of general and special revenue funds as of 2/29/04, as restated	\$ 112,627
Add: Governmental capital assets, including general fixed assets	29,558
Deduct: Accumulated depreciation as of 2/29/04 on above governmental capital assets	(3,366)
Add: Governmental internal service fund net assets as of 2/29/04	<u>27,314</u>
Governmental net assets, restated, as of 2/29/04	<u>\$ 166,133</u>

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF FREE SOIL

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2005

	<i><u>Budgeted Amounts</u></i>		<i><u>Actual</u></i>	<i><u>Actual Over (Under) Final Budget</u></i>
	<i><u>Original</u></i>	<i><u>Final</u></i>		
Revenues:				
Property taxes	\$ 6,650	\$ 6,650	\$ 7,653	\$ 1,003
State grants	13,500	13,500	16,408	2,908
Interest and rents	350	350	530	180
Other revenue	<u>500</u>	<u>500</u>	<u>75</u>	<u>(425)</u>
Total revenues	<u>21,000</u>	<u>21,000</u>	<u>24,666</u>	<u>3,666</u>
Expenditures:				
Current:				
General government	35,940	35,940	23,249	(12,691)
Public safety	500	500	500	-
Other	2,500	2,500	-	(2,500)
Capital outlay	<u>600</u>	<u>600</u>	<u>999</u>	<u>399</u>
Total expenditures	<u>39,540</u>	<u>39,540</u>	<u>24,748</u>	<u>(14,792)</u>
Excess (deficiency) of revenues over expenditures	<u>(18,540)</u>	<u>(18,540)</u>	<u>(82)</u>	<u>18,458</u>
Net change in fund balance	(18,540)	(18,540)	(82)	18,458
Fund balance, beginning of year, as restated	<u>45,636</u>	<u>45,636</u>	<u>45,636</u>	<u>-</u>
Fund balance, end of year	<u>\$ 27,096</u>	<u>\$ 27,096</u>	<u>\$ 45,554</u>	<u>\$ 18,458</u>

VILLAGE OF FREE SOIL

SPECIAL REVENUE FUND – MAJOR STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2005

	<i>Budgeted Amounts</i>		<i>Actual</i>	<i>Actual Over (Under) Final Budget</i>
	<i>Original</i>	<i>Final</i>		
Revenues:				
State grants	\$ 21,500	\$ 21,500	\$ 27,028	\$ 5,528
Interest and rents	500	500	509	9
Total revenues	<u>22,000</u>	<u>22,000</u>	<u>27,537</u>	<u>5,537</u>
Expenditures:				
Current:				
Public works	31,184	31,184	9,856	(21,328)
Capital outlay	3,000	3,000	-	(3,000)
Total expenditures	<u>34,184</u>	<u>34,184</u>	<u>9,856</u>	<u>(24,328)</u>
Excess (deficiency) of revenues over expenditures	<u>(12,184)</u>	<u>(12,184)</u>	<u>17,681</u>	<u>29,865</u>
Net change in fund balance	(12,184)	(12,184)	17,681	29,865
Fund balance, beginning of year	<u>49,272</u>	<u>49,272</u>	<u>49,272</u>	<u>-</u>
Fund balance, end of year	<u>\$ 37,088</u>	<u>\$ 37,088</u>	<u>\$ 66,953</u>	<u>\$ 29,865</u>

VILLAGE OF FREE SOIL

SPECIAL REVENUE FUND – LOCAL STREET FUND

BUDGETARY COMPARISON SCHEDULE

Year Ended February 28, 2005

	<i><u>Budgeted Amounts</u></i>		<i><u>Actual</u></i>	<i><u>Actual Over (Under) Final Budget</u></i>
	<i><u>Original</u></i>	<i><u>Final</u></i>		
Revenues:				
State grants	\$ 4,500	\$ 4,500	\$ 5,381	\$ 881
Interest and rents	300	300	256	(44)
Total revenues	<u>4,800</u>	<u>4,800</u>	<u>5,637</u>	<u>837</u>
Expenditures:				
Current:				
Public works	<u>8,042</u>	<u>8,542</u>	<u>2,885</u>	<u>(5,657)</u>
Total expenditures	<u>8,042</u>	<u>8,542</u>	<u>2,885</u>	<u>(5,657)</u>
Excess (deficiency) of revenues over expenditures	<u>(3,242)</u>	<u>(3,742)</u>	<u>2,752</u>	<u>6,494</u>
Net change in fund balance	(3,242)	(3,742)	2,752	6,494
Fund balance, beginning of year	<u>17,719</u>	<u>17,719</u>	<u>17,719</u>	<u>-</u>
Fund balance, end of year	<u>\$ 14,477</u>	<u>\$ 13,977</u>	<u>\$ 20,471</u>	<u>\$ 6,494</u>

OTHER SUPPLEMENTAL INFORMATION

VILLAGE OF FREE SOIL

GENERAL FUND

DETAILED SCHEDULE OF REVENUES

Year Ended February 28, 2005

Revenues:

Current taxes:

Property taxes	\$ 7,578
Administration fees	<u>75</u>
	<u>7,653</u>

State grants:

State revenue sharing - sales tax	15,060
Metro act	<u>1,348</u>
	<u>16,408</u>

Interest and rents:

Interest	<u>530</u>
	<u>530</u>

Other revenue:

Contributions and donations	<u>75</u>
	<u>75</u>

Total revenues	<u><u>\$ 24,666</u></u>
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VILLAGE OF FREE SOIL

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES

Year Ended February 28, 2005

Expenditures:

General Government:

Council:

Personnel	\$ 1,550
Fringe benefits	119
Supplies	135
Contracted services	1,435
Dues and memberships	10
Printing and publications	89
Insurance	6,636
Utilities	4,570
Other	143
	<u>14,687</u>

President:

Personnel	600
Fringe benefits	46
	<u>646</u>

Clerk:

Personnel	1,380
Fringe benefits	106
Supplies	150
	<u>1,636</u>

Audit:

Contracted services	1,825
	<u>1,825</u>

Treasurer:

Personnel	1,100
Fringe benefits	84
Supplies	564
	<u>1,748</u>

Elections:

Personnel	378
Printing and publications	116
	<u>494</u>

Community Activities - Tree Project:

Supplies	2,213
	<u>2,213</u>

Total general government	<u>23,249</u>
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VILLAGE OF FREE SOIL

GENERAL FUND

DETAILED SCHEDULE OF EXPENDITURES, CONTINUED

Year Ended February 28, 2005

Expenditures, continued:

Public Safety:

Fire:

Contracted services	\$ 500
	<u>500</u>

Total public safety	<u>500</u>
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Capital Outlay:

General government	<u>999</u>
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Total expenditures	<u><u>\$ 24,748</u></u>
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**BERTHIAUME
& COMPANY**

Certified Public Accountants

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MANAGEMENT LETTER

To the Village Council
Village of Free Soil, Michigan

We have completed our audit of the financial statements of the Village of Free Soil for the year ended February 28, 2005, and have issued our report thereon dated April 25, 2005. As part of our examination, we made a study and evaluation of the Village's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Village's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The Village's administration is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by the administration are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide the administration with reasonable, but not absolute assurance that assets are safeguarded against unauthorized use or disposition and that transactions are executed in accordance with the administration's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

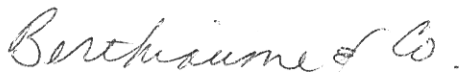
Because of inherent limitations in any system of internal accounting control, errors or irregularities may, nevertheless, occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the Village of Free Soil taken as a whole. Our study and evaluation disclosed no conditions that we believe to be material weaknesses.

This report is intended solely for the use of the Village management and should not be used for any other purpose.

We wish to extend our appreciation to you and your staff for the assistance accorded us during our examination.

Sincerely,



Berthiaume & Company
Certified Public Accountants

April 25, 2005